

## TAX FLASH NEWS

### Swachh Bharat Cess is to be levied at the rate of 0.5 per cent on the value of taxable services with effect from 15 November 2015

#### Background

The central government, vide Union Budget 2015, proposed to levy a Swachh Bharat Cess (SBC) at the rate of 2 per cent on the value of taxable services to finance and promote its Swachh Bharat initiative from the date to be notified.

Now, the central government, vide Notification No. 21/2015-ST dated 6 November 2015, prescribed 15 November 2015 as the effective date for levy of SBC.

Further, the effective rate for levy will be 0.5 per cent of the value of taxable services (vide Notification No. 22/2015-ST dated 6 November 2015).

#### Coverage

The Notification has introduced Chapter VI under the Finance Act, 2015 to levy SBC at the rate of 0.5 per cent on the value of taxable services from 15 November 2015. This cess will be in addition to the service tax leviable on taxable services.

The SBC will be treated as service tax and the provisions of Chapter V of the Finance Act, 1994 relating to the levy and collection of service tax (including exemption and refund) will equally apply. To illustrate, SBC will apply on the value after abatement i.e. on the net taxable value. Therefore, SBC will also be payable by the recipient of services in case of services liable to service tax under reverse charge levy.

#### Our comments

Although SBC is referred to as a cess, it is yet leviable on the value of taxable services and not on the amount of service tax.

The introduction of SBC is expected to increase the effective service tax rate to 14.5 per cent from the existing 14 per cent. As of now, only the effective date and the rate of SBC have been notified. However, trade and industry eagerly look forward to clarification by the government on the following aspects:

- Availability of CENVAT credit to the recipient of services
- Applicability of SBC on services covered under Rule 6 of the Service Tax Rules, 1994 (i.e. air travel agent, life insurance premium, purchase and sale of foreign currency, where service tax is paid on a presumptive basis)

Besides the above, service providers/receivers might have to make changes in the invoices so as to separately reflect the SBC on the invoices and also examine the impact of point of taxation, to determine the applicability of SBC in cases where the services/invoice/payment have been made before the effective date i.e. 15 November 2015.

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